

COMMONWEALTH OF MASSACHUSETTS

Executive and Management Compensation Report to the Legislature

Per Chapter 149, Section 391, Acts of 2004

November 15, 2004



Submitted by:

**The Executive Office for Administration and Finance
The Human Resources Division**

EXECUTIVE AND MANAGEMENT COMPENSATION IN MASSACHUSETTS STATE GOVERNMENT

In accordance with Section 391 of Chapter 149 of the Acts of 2004, and in consultation with the State auditor and personnel administrator, the Executive Office for Administration and Finance (ANF) has conducted a review and analysis of employee compensation in the executive branch of state government.

This report is based on analysis initially begun by the Human Resources Division in 2003 to study the advantages, disadvantages and legislative requirements to change the management pay schedule from steps (longevity based) to a more flexible system with an emphasis on pay for performance. The research was positive and conclusive: the current management salary schedules could be simplified greatly, while also establishing a compensation structure that is flexible, competitive and more progressive.

In June of 2004, the legislature added outside Section 391 to the budget, which requires a report on Executive and Management Compensation.¹ That section required, among other items, an analysis of employee compensation of those employees earning over \$100,000 as well as a review of the current management salary structure and distribution.

This report is presented in three parts. First there is an analysis of the existing distribution of highly-paid (over \$100,000) employees and their distribution within state government. Part 2 analyses the current management salary schedule structure and methodology. Finally, Part 3 makes recommendations for changes.

Executive Summary

The executive branch of the state government employs approximately 71,000 people. Of that total, 1781 individuals (or 2.5%) earned over \$100,000 in FY2004. In addition, the independent authorities (not including the MassPike) employed an additional 314 individuals earning in excess of \$100,000.

- The great majority of the individuals earning over \$100,000 were employed in education (approximately 49% of the total), public safety (approximately 34% of the total) and health and human services (approximately 10% of the total). The

¹ The text of Section 391 is as follows: The secretary of administration, in collaboration with the state auditor and the personnel administrator, shall conduct a comprehensive review and analysis of executive and managerial compensation and shall report the results of the study to the house and senate committees on senate ways and means and the joint committee on public service not later than October 1, 2004. The report shall include, but not be limited to, a review of all executive branch employees, employees of the governor's office and the executive office of administration and finance whose annual salary is \$100,000 or more. The study shall also analyze the management salary schedule established in section 46 of chapter 30. The report shall include, but not be limited to, an analysis of the operation of the salary schedule, including the number of managers in each job group at each increment, how salaries for managers are initially set, how the performance of managers is reviewed and how increases or increments are given. The administrator shall make recommendations regarding whether and how the schedule should be adjusted, including whether job grades or steps should be increased or eliminated and on other methods of salary administration, including management performance evaluations.

majority of the highly-compensated individuals in education were professors, while much of the high earnings in public safety were the result of overtime and other supplements. The highly compensated individuals in HHS were mainly health professionals.

- Individuals earning over \$100,000 in the remainder of state government comprised only 7% of the total of such individuals.

The current management salary schedule applies to approximately 3000 managers in state government (approximately 7% of the workforce). It does not apply to the independent authorities, who manage their own salary system.

- Salaries are set within a range that is applicable to the specific job description
- Managers are reviewed annually for performance, with the results being a major component of the pay raises that are given annually
- A small component of the increases are still fixed (i.e. “step increases”); however this component is now smaller than in years past

Recommendations include:

- Elimination of the automatic step increase requirement
- Elimination of the statutorily set minimum pay ranges for managers, allowing the range to more accurately reflect the market
- Improvement of the job classification system, providing a solid foundation for the management salary schedule system
- Continued refinement of the merit pay system
- Indexing of statutorily set pay for constitutional officers

Part One: Analysis of Executive Branch Employee Compensation

Definition of “Executive Branch employees”

Broadly defined, the Executive Branch of state government employs 71,000 people. No single organizational chart exists, and a consistent definition of executive authority is probably unattainable. We chose as our total “executive branch employee” population all of those departments that are paid from line items in the state budget and are non-legislative and non-judicial. They fall into four major groups:

- the Executive Departments that come under the direct authority of the Governor;
- the state and community colleges;
- the University of Massachusetts; and
- the Constitutional and independent agencies, such as the Secretary of State, DA’s, Sheriffs, etc.

We excluded the following types of employees: “contracted workers”, seasonal workers, those employees who are on unpaid leave, and certain Board or Commission members, whose compensation is processed and defined differently from other employees.

For comparative purposes, compensation information from thirteen independent authorities, including the Massachusetts Bay Transportation Authority, the Massachusetts Port Authority, and the Massachusetts Housing Finance Authority, were studied. The Massachusetts Turnpike Authority declined to provide relevant data.

Who is an “executive”?

As a reasonable proxy for executive level positions following the guidelines set forth by the General Court in Section 391, ANF selected state employees with *either* an annual cash compensation of at least \$100,000 as of the June 26, 2004 HRCMS payroll record, or total cash compensation of \$100,000 or more during FY2004.

Any compensation threshold is arbitrary. It is probable that some individuals earning less than \$100,000 annually do, in fact, exercise executive authority. The reverse probably holds as well. Still, given the complexity of government, this threshold definition provides a reasonable perspective on the population of executive-level employees in state service.

One cautionary note: throughout Part One we will make reference to the pool of executives defined by this arbitrary cutoff of \$100,000. Thus, averages for “executives” as referred to in this report, by definition, *not* be representative of *all* employees. Thus an “average” salary of, e.g. \$120,000 refers to an average of those employees earning over \$100,000, not all employees in that department, title or general area of government.

What is “compensation”?

In general, state employees receive three different types of compensation: cash, retirement (deferred) payments, and benefits like health insurance. For this analysis, cash compensation is defined as regular salary, overtime pay, and salary supplements such as educational incentives (such as “Quinn bill”), longevity and shift differentials. Thus, individuals with base salary under \$100,000 but with overtime or settlements plus base pay exceeding \$100,000 were included in the analysis.

How large is the “executive” group?

Using the definition of “executive compensation” above, approximately 2.5% of state employees fall into this category or 1,781 individuals as of June 2004. As a group, these employees are paid \$213.18 million, with average annual compensation of \$119,763. Compensation for this group totals less than 1% of total state government annual expenditures.

How is the executive group distributed in state government?

The following chart shows the breakdown of these employees throughout the executive branch:

Governmental Area	Total Employees	Over \$100k	Exec group as % of work force	Exec Comp as % of total comp
Executive departments*	43260	866	2.0%	4.9%
Umass**	12813	718	5.6%	12.1%
State, community colleges	8350	126	1.5%	3.6%
Constitutional, other***	6528	71	1.1%	2.5%
TOTAL	70951	1781	2.5%	

*Executive agencies directly under the Governor's authority

**UMass automated pay system captures position and salary data in a different manner than that of the other agencies, and therefore above data may be represented differently

*** includes Sheriffs

In addition to the executive branch employees directly studied, independent authorities (excluding MassPike from which we did not receive data) have 314 positions earning \$100,000 or higher. As a group, these independent authority employees are paid \$37.9 million, with average annual compensation of \$120,703.

The following table summarizes the overall distribution of 1781 executive-level employees (as defined by annual compensation) across broad governmental missions.

Governmental Mission	Number	Total Compensation	Percent of group
Education	847	\$105.06 million	49.3%
Public safety, law enforcement	630	\$ 72.50	34.0%
Health and human services	168	\$ 20.61	9.7%
All other governmental areas*	143	\$ 15.01	7.0%

*excludes independent authorities (see below)

The following table summarizes the overall distribution of 314 positions employed by independent authorities (not included in the table above).

Independent Authorities	Number	Total Compensation	Percent of group
MBTA	130	\$15.68 million	41.4%
MassPort	51	\$ 6.34	16.7%
MHFA	41	\$ 4.72	12.5%
MWRA	31	\$ 3.71	9.8%
Other authorities*	61	\$ 7.47	19.6%

*excludes MassPike

Higher education

The following table summarizes the distribution of executive-level employees within higher education, sorted by average compensation.

Higher Ed Campus or System		Number	Average comp	Total comp (\$ millions)
FRC	FRAMINGHAM State College	5	\$ 131,308	\$ 0.65
FSC	FITCHBURG State College	9	129,110	1.16
RGT	Board of Higher Ed	5	128,616	0.64
MCC	MIDDLESEX Community College	5	128,294	0.64
BHC	BUNKER HILL Community College	4	127,670	0.51
BSC	BRIDGEWATER State College	12	125,339	1.50
UMS	UNIVERSITY of Massachusetts*	720	124,335	89.52
MCA	MASS College of Art	4	123,307	0.49
SSA	SALEM State College	12	122,655	1.47
WSC	WESTFIELD State College	7	122,168	0.85
MBC	MASS BAY Community College	5	120,233	0.60
---	Other campuses (under 4 per campus)	21	118,570	2.49
WOR	WORCESTER State College	5	118,247	0.59
MMA	MASS MARITIME ACADEMY	6	117,626	0.70
BRC	BRISTOL Community College	5	116,305	0.58
HCC	HOLYOKE Community College	5	115,675	0.57
NEC	NORTHERN ESSEX Comm College	7	112,926	0.79
CCC	CAPE COD Community College	4	112,649	0.45

*UMass automated pay system captures position and salary data in a different manner than that of the other agencies, and therefore above data may be represented differently

There are distribution and compensation differences across and within educational systems. The following table summarizes the \$100,000-plus group from a cross-system perspective.

System	Number	Campus average	Average compensation	Total compensation (\$Millions)
Community colleges	53	3.5 positions	\$120,190	\$6.37
State colleges	62	6.9 positions	124,500	7.72
Universities*	720	144.0 positions	124,350	89.52

**UMass automated pay system captures position and salary data in a different manner than that of the other agencies, and therefore above data may be represented differently

Approximately 86% of all higher education \$100,000-plus positions are deployed within the University system.

Within the state college system, Salem and Bridgewater State Colleges each have 12 positions earning over \$100,000 annually, while Massachusetts College of Liberal Arts each have only two. At the community college level, Northern Essex has 7 positions earning over \$100,000, while Berkshire, Greenfield, and Massasoit each have only one.

Across state government, title designations are inconsistent. To facilitate analysis, actual titles in the payroll system were turned into generic descriptions that approximated the type of work without regard to specific advancement or rank. Therefore, positions such as “assistant dean” and “associate dean” were grouped under the general title “dean”. In addition, titles like “chair”, “chairman”, and “department chair” were grouped under “professor”.

The following table classifies the University of Massachusetts executive positions by generic title sorted by average compensation (note: titles with less than four employees were eliminated for analysis due to confidentiality).

Generic Title (over 3 employees)	Number	Average compensation	Total compensation (\$ millions)
Athletics	7	\$ 168,858	\$ 1.18
Deputy (applies to various titles)	4	160,776	0.64
Provost	17	155,278	2.63
CIO	5	152,367	0.76
Dean	48	142,445	6.83
Chancellor	53	140,470	7.44
Director	55	124,835	6.86
Administrator	19	120,501	2.28
Manager	6	120,107	0.72
Professor (includes dept. chairs)	486	118,479	57.58
Attorney	7	115,518	0.80
Comptroller	4	113,481	0.45
Consultant	4	103,749	0.41

At the state college level, executive structure by title varies considerably. For example, Bridgewater State College employs seven vice presidents and three deans, while Salem State College employs four vice presidents, four deans, and two directors in pursuit of similar educational missions.

Public safety and law enforcement

The following table summarizes positions earning over \$100,000 annually in public safety and law enforcement.

Department, agency or office	Number
POL - Department of State Police	525
District attorneys (statewide)	29
DOC - Department of Correction	27
Sheriffs (statewide)	19
Office of the Attorney General	8
CME - Chief Medical Examiner	6
EPS - Executive Office of Public Safety	5
MIL - Military Division	3
DFS - Department of Fire Services	2
RMV - Registry of Motor Vehicles	1
DPS - Department of Public Safety	1

Note that 525 of the 626 in public safety are members of the State Police. The following table classifies the State Police positions by generic title sorted by average compensation (note: titles with less than four employees were eliminated for analysis due to confidentiality).

Title	Number	Average compensation	Total compensation (\$ millions)	Percent of total
Major	15	\$ 130,818	\$ 1.96	3.2 %
Detective	30	130,315	3.91	6.4
Captain	30	122,529	3.68	6.0
Lieutenant	134	118,172	15.84	25.9
Sergeant	156	114,348	17.84	29.2
Trooper	160	108,708	17.39	28.5

In the state police, overtime pay and pay supplements are a significant component of total compensation. The base pay average of the state police earning over \$100,000 is \$72,735, while the total compensation average is \$115,435. Note that out of 525 total state police earning \$100,000 or higher in total cash compensation, only 17 of those employees had salary rates above that amount; it is the overtime and pay supplements such as educational incentives that contribute to the high total cash compensation.

Health and human services.

The following table summarizes positions earning over \$100,000 annually in health and human services.

Department	Number	Average compensation	Total comp (\$Millions)
DPH DEPARTMENT OF PUBLIC HEALTH	56	\$ 126,715	\$ 7.10
DMH DEPARTMENT OF MENTAL HEALTH	47	129,393	6.08
DMR DEPT OF MENTAL RETARDATION	23	117,172	2.69
WEL DEPT OF TRANSITIONAL ASSISTANT	12	109,114	1.31
EHS EO OF HEALTH & HUMAN SERVICES	7	117,364	0.82
DMA DIV OF MEDICAL ASSISTANCE	6	105,724	0.63
CHE SOLDIERS' HOME IN MASSACHUSETT	4	127,405	0.51
All other departments	13	112,308	1.46

Highly paid positions are dominated by health professionals, as summarized by title classifications in the table below, sorted by average compensation.

Title	Number	Average compensation	Total comp (\$Millions)	Percent of total comp
Psychiatrist	19	\$ 154,759	\$ 2.94	14.3 %
Physician	30	137,341	4.12	20.0 %
Psychologist	4	128,764	0.52	2.5 %
Nurse	49	118,500	5.81	28.2 %
All other positions	5	116,000	0.58	2.8 %
Manager	8	111,302	0.89	4.3 %
Administrator	49	108,668	5.32	25.8 %
Programmer	4	107,728	0.43	2.1 %

Other government areas

Approximately 93% of all \$100,000-plus positions in government address education, public safety, and human service missions. The remaining 7% of positions are widely spread across numerous executive branch functions. The following table summarizes this distribution.

Government area (including reporting agencies and departments)	Number	Average compensation	Total comp (\$Millions)
ANF – Administration and finance	52	111,345	5.79
OED – Economic development	35	106,785	3.74
OEA – Environmental affairs	13	106,615	1.39
All other areas	9	113,333	1.02
Governor's office*	9	107,777	0.97
OTC – Transportation and construction	8	107,567	0.86
Attorney General	8	105,663	0.85
Treasurer	7	109,464	0.77
Comptroller	4	\$ 120,160	\$ 0.48

*NOTE: The Governor and Lt. Governor waived their respective compensation, thus lowering average compensation for the Governor's office. With the Governor and Lt. Governor excluded from the calculation, average compensation would be \$139,247.

The following table summarizes agencies and departments with four or more \$100,000-plus positions, sorted by total compensation.

Department or agency	Reports to	Number	Average compensation	Total comp (\$Millions)
Department of Revenue	ANF	19	\$ 110,664	\$ 2.10
Department of Industrial Accidents	OED	11	104,760	1.15
Capital Asset Management	ANF	8	113,831	0.91
Executive Office for Admin & Finance	ANF	7	112,465	0.79
Information Technology Division	ANF	6	108,401	0.65
Dept of Environmental Protection	OEA	6	107,791	0.65
Division of Unemployment Assistance	OED	6	102,938	0.62
Human Resources Division	ANF	5	108,690	0.54
Massachusetts Highway Department	OTC	5	107,637	0.54
Dept of Telecommunications & Energy	OED	4	104,771	0.42

Cross-sectional compensation by area

The following table summarizes average and highest compensation across governmental areas (areas with less than five positions were excluded from this comparison).

Governmental area	Average compensation	Highest compensation
Higher education	\$ 124,105	\$ 350,000
Health and human services	122,674	207,541
Independent authorities (excludes MassPike)	120,703	259,085
Department of education	115,823	166,064
Public safety	115,386	211,905
Sheriffs (statewide)	114,023	183,040
District attorneys (statewide)	112,129	121,385
Administration and finance	111,345	144,915
Treasurer	109,464	120,923
Governor *	107,777	154,050
Transportation and construction	107,567	119,718
Economic development	106,785	150,000
Environmental affairs	106,615	113,365
Attorney general	105,663	123,442

*NOTE: The Governor and Lt. Governor waived their respective compensation, thus lowering average compensation for the Governor's office. With the Governor and Lt. Governor excluded from the calculation, average compensation would be \$139,247.

Cross-sectional compensation by title

The following table summarizes average and highest compensation across generic titles (titles with less than ten positions were excluded from this comparison).

Generic title, executive branch	Average compensation	Highest compensation
President	\$ 157,520	\$ 350,000
Provost	155,278	240,000
Psychiatrist	154,759	185,286
Chancellor	140,933	250,000
Physician	139,347	192,380
Dean	135,029	219,067
Major	130,818	140,648
Detective	130,315	211,905
Director	121,303	193,691
Deputy	120,482	204,811
Captain	118,897	161,412
Nurse	118,500	157,522
Professor	118,479	250,000
Lieutenant	118,172	163,534
Vice President	117,095	175,100
Sergeant	114,348	204,366
Attorney	112,084	156,500
Programmer	112,078	144,915
Administrator	111,259	162,561
Manager	109,871	180,907
Trooper	108,708	144,910

Outside of education and public safety, the generic title of *administrator* is the most common with 152 positions statewide.

By comparison, at the independent authorities, compensation distribution by title is dominated by technical, legal, and line management positions (highest compensation above \$200,000 shown).

Generic title, independent authorities	Average compensation*	Highest compensation*
CEO, President, Senior Executive	\$ 145,545	\$ 259,085
Technical (primarily MBTA operations)	119,097	225,000
Director	123,211	250,000
Attorney	122,044	224,720
Deputy (various positions)	128,188	201,819

*Excludes MassPike

Part Two: Analysis of Current Management Salary Schedule and Methodology

Executive level salaries are set via multiple methodologies. For those individuals who are members of bargaining units (such as troopers and sergeants in the State Police), salaries and other compensation are set through collective bargaining.

For certain Constitutional Officers including the Treasurer, Secretary of State, Auditor, Attorney General, etc., the salary is set in statute. (Commissioned officers of the State Police also have their salaries tied by statute to the negotiated pay rates of the troopers and sergeants).

Finally, for the majority of other executives, the derivation of their compensation is based upon a statutory scheme contained in Chapter 30, Section 46C of the MGL that sets forth a schedule of ranges for 12 levels of management levels, with the minimums set in statute (subject to “step” increases implemented by the Personnel Administrator).

This analysis will concentrate on the Management Salary Schedule and its methodology.

General Description of Management Salary Schedule

The current Management Salary Schedule applies to all classified managers in the Executive Departments of state government (that section of the Executive Branch that comes under the direct authority of the Governor and the Chief Human Resources Officer).

Classified managers are assigned to broad management titles in four series, each of which consists of 12 levels (job groups):

- Administrator I through XII
- Fiscal Officer I through XII
- Program Manager I through XII
- Program Manager Specialist I through XII

The Management Salary Schedule is organized into 12 job groups (grades) and salary ranges as follows (see next page):

Grade	1 st Quartile*		2 nd Quartile		3 rd Quartile		4 th Quartile	
M-I	\$27,848	\$38,871	\$38,871	\$44,596	\$44,596	\$50,321	\$50,321	\$56,046
M-II	\$30,285	\$42,345	\$42,345	\$48,643	\$48,643	\$54,941	\$54,941	\$61,239
M-III	\$32,685	\$45,711	\$45,711	\$52,517	\$52,517	\$59,324	\$59,324	\$66,131
M-IV	\$35,247	\$49,351	\$49,351	\$56,749	\$56,749	\$64,148	\$64,148	\$71,546
M-V	\$38,067	\$53,333	\$53,333	\$61,358	\$61,358	\$69,382	\$69,382	\$77,407
M-VI	\$41,017	\$57,476	\$57,476	\$66,131	\$66,131	\$74,787	\$74,787	\$83,442
M-VII	\$44,590	\$62,555	\$62,555	\$72,037	\$72,037	\$81,519	\$81,519	\$91,001
M-VIII	\$48,478	\$68,088	\$68,088	\$78,475	\$78,475	\$88,863	\$88,863	\$99,250
M-IX	\$52,700	\$74,107	\$74,107	\$85,487	\$85,487	\$96,868	\$96,868	\$108,249
M-X	\$57,285	\$80,656	\$80,656	\$93,129	\$93,129	\$105,602	\$105,602	\$118,075
M-XI	\$60,722	\$85,497	\$85,497	\$98,719	\$98,719	\$111,941	\$111,941	\$125,163
M-XII	\$64,365	\$90,625	\$90,625	\$104,639	\$104,639	\$118,653	\$118,653	\$132,667

*The 1st quartile technically starts at the minimum salary set by statute; the realistic starting salary ("market minimum") is actually significantly higher than the statutory minimum.

Analysis of Executive Distribution

There are 3026 managers in these positions as of 6/26/04, which constitutes 7% of the total number of Executive Department employees (43,260).

Grade	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile
I	7	1	1	1
II	10	24	44	17
III	43	58	66	37
IV	47	121	186	98
V	29	121	324	127
VI	27	146	221	102
VII	14	93	247	133
VIII	14	74	153	73
IX	8	36	107	61
X	1	15	56	35
XI	3	5	10	14
XII	0	2	5	9

How Salaries are Initially Set:

When new managers are hired, they are generally recruited in the first quartile of the applicable salary range for their job group; they then move up through the range over time based on merit or increases in responsibility. HRD rules also make allowance for agencies to request recruitment rates above the first quartile based on a variety of factors: comparable experience beyond the Minimum Entrance Requirements of the job, educational degrees, expertise in a specialized field, and other hard to find skills. HRD reviews these types of requests prior to granting approval to the agencies for the recruitment rate.

How Management Performance is Evaluated

Commencing in June of 2004, a new performance-based evaluation system, Achievement and Competency Enhancement System (ACES), was used to evaluate management performance. This has replaced the MPRS system, and was designed to not only evaluate performance, but serves as the basis for a performance-based system of annual pay increase. Based on the overall rating of performance, merit pay is awarded to managers. The most significant change to prior methods has included a “forced ranking” of employees: only a certain percentage of employees may be rated “Exceptional”, etc. This avoids the traditional result of “grade inflation”.

The ACES evaluation period is October 1 to September 30. The following are the three steps involved in management evaluation:

- Planning (October): Managers set objectives based on their agency priorities
- Progress Review (April): Managers are evaluated halfway through the year to see how they are doing and address any problems.
- Final Review (September): Managers receive overall performance ratings and professional development plans. The following are the five rating categories:
 - Exceptional
 - Highly Effective
 - Fully Meets Expectations
 - Below Expectations
 - Fails to Meet Job requirements

How Salary Increases are Determined

Step Increases

Based on the current law, step increases are salary increases awarded to managers based solely on longevity. Traditionally, both step increases and so-called “merit pay” were given uniformly to all executives. For example, for many years the step increase was 2.7% and the merit increase was 2%, for all managers except those who were at the two lowest performance ratings. Thus, given this fixed increase awarded to the vast majority of managers, it has been difficult if not impossible to “unlock” relative pay differences among different employees performing the same job at different performance levels.

Commencing with the ACES review system, the mandatory “step” increase was reduced to 0.5%. While this is seemingly a significantly reduced amount, coupled with the merit increase, total salary increase for all managers will be 3% for 2005, which is slightly below historical levels. In the Merit Grid below, each percentage shown includes the 0.5% step increase.

Merit Increases

In addition to the annual “step increase, the current ACES merit pay system provides for the majority of a manager’s annual increase to be performance-related. The following “merit grid” table shows how merit increases are currently awarded based on the five ACES final ratings and the pay-range quartile the manager was in on 6/30/04, and what distributions of ratings are expected statewide. (These percentages all include a required step 0.5% step, with the exception of Below Expectations and Fails to Meet Job Requirements, which result in no merit increase and denial of step.)

Effective October 1, 2004 for the 2004 Performance Review Year (7/1/03-9/30/04):

ACES Ratings Guidelines				
(% of managers for each rating; all are guidelines except the 10% cap on Exceptional)				
Exceptional	Highly Effective	Meets Expectations	Below Expectations	Fails to Meet Job Requirements
0-10%	65-75%	15-20%	1-5%	0-1%

Performance Rating					
Quartile Placement	Exceptional	Highly Effective	Meets Expectations	Below Expectations	Fails to Meet Job Req’s
4 th quartile	6.00%	3.00%	2.00%	0.00%	0.00%
3 rd quartile	6.50%	3.25%	2.25%	0.00%	0.00%
2 nd quartile	7.00%	3.50%	2.50%	0.00%	0.00%
1 st quartile	7.50%	3.75%	2.75%	0.00%	0.00%

Note that the salary increase amounts vary by quartile. This enables those individuals closest to the minimum salary to increase at an accelerated rate towards the market rate or midpoint over time so they are being paid their fair salary as their knowledge increases and they advance on the learning curve. When a manager reaches the top of the second quartile (midpoint), he/she is at full performance in the position. At this point, we slow down the manager’s progression toward the end of the salary range so the manager doesn’t reach the maximum salary too soon and thus be ineligible for an increase to base salary unless the market rate increased for the position and the salary ranges were adjusted.

While the potential increases can range from 0% to 7.5%, the overall cost of the above increases is designed so that the total increase cannot exceed a total merit pool of 3% statewide during FY 2005. This 3% figure is based on budget constraints as well as the results of a 2004 salary survey of comparable states and private industry practices. The 3% cost must come out of existing agency budgets for 2005 as accounted for in agency spending plans.

In future years the total merit pool will be adjusted as appropriate to reflect fiscal and market conditions.

Part Three: Recommendations

Based on the analysis of the existing compensation and its distribution, and the recent experience with the ACES review and merit pay methodology, several recommendations can be made:

1. **Elimination of Automatic Steps.** The key issue in pay for performance is to base pay on measurement of performance, not automatic increases based on longevity. By eliminating automatic steps, a true pay for performance system can be implemented.
2. **Elimination of Set Pay Ranges.** As part of the implementation of a modern merit-pay system, the set pay ranges (specifically the minimum salary rates) set in statute should be eliminated. Improvements to the classification system (see below) and more attention to ongoing analysis of competitive salary data will allow annual adjustment of the salary range minimums and maximums based upon up to date salary surveys reflecting the true value of management jobs as compared to similar jobs in other states and industry.
3. **Job Classifications.** Any effective salary system requires a solid foundation. That foundation is an accurate and constantly updated job classification system. The current classification system is inadequate and outmoded. There is no effective differentiation between positions that may have similar responsibilities but different levels of expertise. The minimum requirements for many positions are no longer applicable and the competencies required should be updated. This is particularly evident in educational qualifications that are increasing based on the skills needed. In addition, because jobs are not well classified or defined, career paths are not clear and individuals looking for promotional opportunities are unable to discern if an open position will give them that opportunity.

The classification plan was last updated in 1984 and implemented in 1986. Agencies are now experiencing many recruitment and pay problems with these outdated job specifications that do not describe the work actually being performed, nor the true minimum entrance requirements needed for each job.

HRD has begun a comprehensive review of management position classifications on a statewide basis. The completion of a revised classification system is a top priority for HRD. Revisions to the classification plan will address the need to create appropriate pay ranges and "slot" jobs into those ranges on the basis of the true, relative value of those jobs; the job evaluation system and pay ranges would be more universally applicable across the organization to all types of management functions.

4. **Continue to Refine Merit Pay System.** Based on the successes of the current ACES and merit pay initiatives, the system should be continued. Currently HRD

is evaluating feedback from agencies regarding the system, and early indications are that the system is a significant improvement over earlier methodologies. Recommendations include

- Refining the ACES form to create more rating categories that can be applied to allow for more variations in the performance review
- Refining the merit pay grid to further differentiate those at the lower and higher levels of the salary range
- Making changes to the distribution profile of forced rankings
- Consider implementing a merit-based bonus system so that superior performance of individuals can be recognized with a one-time bonus payment without permanent distortion of the salary distribution.

5. **Indexing of Salaries of Constitutional Officers.** Finally, given the significant responsibilities and role played by the constitutional officers, and their exemption from the Management Salary Schedule, it is apparent that there is no currently effective methodology for adjusting the salary for such offices. Given the political difficulties of adjusting such salaries to keep up with market realities over time, and the often higher levels of salaries paid to executives with lesser responsibilities throughout state government, we recommend that the salaries of the constitutional officers be adjusted biannually based upon the same criteria that was implemented in the Constitution for the members of the General Court. Our recommendation is to make such adjustment on the same cycle as for legislators, becoming effective in January 2005.